

Message Text

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TO AMEMBASSY COLOMBO

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STADIS////////////////////////////////

E.O. 11652:N/A

TAGS: ABUD, CE

SUBJECT: ACCOMMODATION EXCHANGE RATE

REF: A) COLOMBO 2499; B) COLOMBO 2500; C) COLOMBO 2690;
D) STATE 205574; E) POST MEMORANDUM - "EXCHANGE RATES FOR
SRI LANKA RUPEES"

1. WE HAVE BEEN EXAMINING THIS QUESTION FROM AS MANY ANGLES
AS POSSIBLE IN ORDER TO BE EXHAUSTIVE IN OUR REVIEW AND
FAIR. ACCOMPANYING DISCUSSION AND ANALYSIS WITHIN THE
DEPARTMENT AND INFORMALLY WITH TREASURY HAVE BROUGHT OUT
FOLLOWING POLICY AND TECHNICAL ISSUES ARISING FROM COLOMBO'S
REQUEST FOR A REVISED ACCOMMODATION EXCHANGE RATE.

2. BACKGROUND: AS THE POST IS AWARE, FINAL DETERMINATION
ON SPECIAL ACCOMMODATION EXCHANGE RATE INVOLVING SALES
FROM U.S. - OWNED CURRENCY SOURCES IS MADE BY TREASURY AFTER
THE DEPARTMENT HAS SET FORTH ITS FINDINGS AND VIEWS. YOU
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SHOULD BE AWARE THAT AT PRESENT ONLY WARSAW AND RANGOON,

WHICH ARE EXCESS CURRENCY POSTS ARE AUTHORIZED TO MAKE SPECIAL EXCHANGE RATES AVAILABLE TO PERSONNEL AT POST. BOTH ARE CURRENTLY UNDER VERY STRONG ATTACK BY TREASURY WHOSE POSITION ON SANCTIONING SPECIAL RATES HAS HARDENED CONSIDERABLY. AS WITH COLOMBO, BUT BY STILL GREATER MARGIN, COMPLETE

ELIMINATION OF SPECIAL RATES COULD MEAN REAL HARDSHIP FOR PERSONNEL AT THESE POSTS.

3. BEYOND THIS POINT, ONLY TWO ISSUES WILL BE CONSIDERED FROM TREASURY PERSPECTIVE: A) WHETHER SHIFT BACK TO FECS WILL RESULT IN A SAVINGS TO U.S. BALANCE OF PAYMENTS. TREASURY'S FOCUS HAS SHIFTED RECENTLY TO DEFERRING DOLLAR SUBSTITUTION FOR RUPEES AS LONG AS POSSIBLE RATHER THAN TO MAXIMIZE DOLLAR IN FLOW WITHIN A ONE OR TWO YEAR PERIOD. IT ARGUES THAT EVEN IF RUPEES ARE A WASTING ASSET BECAUSE OF INFLATION AND DE FACTO DEVALUATION, THEIR BALANCE OF PAYMENTS VALUE IS PROPPED UP BY OFFICIAL CONVERSION RATE

AND BY THE SLOWER TURN-OVER RESULTING FROM SALES AT THE OFFICIAL EXCHANGE RATE. AS NOTED IN PARA 4 BELOW THE ADDITIONAL AGENCY COST IS NOT NECESSARILY AT OVERALL USG EXPENSE. OBVIOUSLY THE RATE AT WHICH RUPEES WASTE BECOMES IMPORTANT AND A FIRM FIX ON INFLATION RATE BECOMES IMPORTANT. EMBASSY'S MEMO (REF E) ADDRESSES THIS ISSUE IN PART BUT ADDITIONAL CLARIFICATION IS NEEDED (SEE PARA 5 BELOW).

4. OTHER BASIC QUESTION (B) TREASURY ASKS IS WHETHER A SHIFT BACK TO FECS WILL LEAD TO AN OVERALL NET BUDGETARY REDUCTION FOR THE USG, A GOAL OTHERWISE SERVED BY SLOWING DOWN THE RATE OF RUPEE CONVERSION, I.E. MAINTAINING THE OFFICIAL RATE. IN THIS CONTEXT TREASURY DOES NOT CONSIDER ADDITIONAL COSTS OR SAVINGS BY INDIVIDUAL AGENCIES RESULTING FROM AN ADHERENCE TO OR SHIFT FROM A GIVEN EXCHANGE RATE, AMONG OTHER REASONS BECAUSE TO THE EXTENT ONE AGENCY SAVES DOLLARS, REIMBURSEMENT TO THE TREASURY OR USDA (PRINCIPALLY) IS CORRESPONDINGLY REDUCED. IN ANY EVENT, THE NET OVERALL FLOW OF DOLLARS FROM THE TREASURY (I.E. THE USG) IS NOT AFFECTED EITHER WAY BY A SHIFT IN THE LIMITED OFFICIAL USE

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RATES. REF A PARA 4

POINTS TO ADDITIONAL COSTS TO DEPARTMENT OF \$60,000 RESULTING FROM SHIFT FROM FECS. TREASURY'S VIEW IS THAT THESE ARE SPENT ON RUPEES THUS RESULTING IN HIGHER DOLLAR VALUE FOR RUPEE HOLDINGS. STATE MAY SUFFER EXTRA DRAW-DOWN BUT THE U.S. TREASURY DOES NOT. WHAT IS OF CONCERN TO IT IS THE PERCENTAGE OF THESE EXTRA DOLLARS FLOWING OUTSIDE

SRI LANKA AS EMPLOYEES SHIFT FROM RUPEE PAYMENT PURCHASES.

5. THESE POINTS WILL GIVE YOU FAVOR OF DEBATE AT THIS
END. THEY DO NOT REPRESENT IMMOVABLE PROBLEMS BUT THEY
ARE SUBSTANTIAL HURDLES. ANY THOUGHTS POST MAY HAVE TO
CONTRIBUTE TO GENERAL DISCUSSION WILL BE WELCOMED. IN

ADDITION, IN LIGHT OF PARA 4 AND 5 ISSUES WE WILL NEED
SOME CLARIFICATION: REF A RECORDS 15 PERCENT DROP IN
DOLLAR INCOME FROM MONTHLY EXCHANGE SALES BUT SHOULD NOT
THE AVERAGE SALES VOLUME OF RS. 142,700 YIELD MORE DOLLARS
AT THE OFFICIAL EXCHANGE RATE OF RS. 6.7/\$1? PRESUMABLY
\$16,700 MONTHLY AVERAGE REPRESENTS MIX OF OFFICIAL AND
FEEC RATE CONVERSIONS (MEMO'S ASSUMPTION NO. 9). IF SO,
IT APPEARS THAT EVEN UNDER PRESENT SYSTEM ALMOST 2 OF
EVERY 3 RUPEES EXCHANGED CONTINUE TO BE AT FEEC RATE.
BELIEVE THIS ASPECT SHOULD BE DEVELOPED. CAN YOU ISOLATE
POST PERSONNEL PURCHASES TO INDICATE DOLLAR AMOUNT SPENT
OUTSIDE COUNTRY (PARA 7)?

6 (A) WOULD ALSO APPRECIATE MORE DETAILED EXPLANATION OF
MEMO'S TABLE II NPV CALCULATION, SHOWING SPECIFICALLY HOW
GIVEN YEAR'S NET INCOME WAS ARRIVED AT AND THEN TRACING
STEPS LEADING TO NPV ASSESSMENT. ONE YEAR WOULD SUFFICE
AS MODEL.

(B) TO WHAT EXTENT DOES REF E INCLUDE NON-EMBASSY RELATED
USG OPERATIONS IN PROJECTING DRAW-DOWN ON U.S.-OWNED
RUPEES? WOULD A CONTINUING UNDP DISBURSEMENT AT CURRENT
LEVELS FOR EXAMPLE, ALTER SIGNIFICANTLY YOUR CALCULATIONS?

7. WE REALIZE DIFFICULTY OF QUANTIFYING PRECISELY BALANCE
OF PAYMENTS LOSS WHICH SHIFT TO OFFICIAL RATE HAS LED, BUT
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DUE TO TREASURY'S CENTRAL CONCERN WITH THIS POINT SOME
EFFORT SHOULD BE MADE. THIS SHOULD INCLUDE RUPEE PURCHAS-
ES OUTSIDE EMBASSY AND DOLLAR FLOW TO PAY FOR GOODS IMPORT-
ED FROM SINGAPORE, DENMARK, ETC. KISSINGER

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